

**OPEN MEETING AGENDA ITEM****BEFORE THE ARIZONA CORPORATION COMMISSION****EXCEPTIONS**

JIM O'CONNOR

CHAIRMAN

LEA MARQUEZ PETERSON

COMMISSIONER

ANNA TOVAR

COMMISSIONER

KEVIN THOMPSON

COMMISSIONER

NICK MYERS

COMMISSIONER

IN THE MATTER OF THE APPLICATION OF  
ARIZONA PUBLIC SERVICE COMPANY TO  
RESET THE ANNUAL POWER SUPPLY  
ADJUSTMENT SURCHARGE AND FOR  
RELATED AUTHORIZATIONS.

DOCKET NO. E-01345A-22-0297

**RUCO'S COMMENTS TO STAFF'S REPORT**

The Residential Utility Consumer Office ("RUCO") appreciates the opportunity to comment on Staff's Memorandum and Proposed Order. RUCO shares in Staff's desire to choose an option that provides the least rate impact to ratepayers. The truth is none of the options offered are optimal or moves the ball towards preventing or even ameliorating a future recurrence. Option 3, arguably the best option, will result in pancaking significant rate increases tied to the under recovery for at least the next two years while temporarily increasing the cap. The outlook for the ratepayer is bleak, further highlighted by the fact that APS currently has a pending rate case seeking a base rate increase of \$772 million.

While the situation is less than ideal, RUCO believes that there are other option(s), which will ultimately benefit not only the ratepayer but the Company as a whole. RUCO believes that the Commission could address the PSA under collection balance, the PSA adjustor, and proposed revenue deficiency as part of the rate case and reach a result that addresses the limitations and possible modifications/alternatives of and to the PSA adjustor in step with the rate case revenue deficiency

1 proposal in a way that provides the least rate impact to ratepayers and better balances the risks  
2 associated with APS' purchased fuel costs.

3 The balance of risk associated with the PSA and the need to address the obvious concerns raised  
4 by the PSA under collection are not addressed in any of the PSA proposals. In the pending rate case the  
5 Commission should consider, at a minimum, the following:

- 6 • RUCO understands a lot of the reason for the large under collection has to do with the  
7 price volatility of gas. This volatility has many causes but certainly a large factor is the  
8 increase in domestic demand due to dwindling storage associated with gas sales of  
9 domestic gas to other parts of the world where gas prices have been soaring as a result of  
10 world affairs and other reasons. RUCO does not question the Larkin study's findings as  
11 to the Company's hedging practices but does believe another look at the topic by  
12 interested parties in the rate case would be worthwhile.

13 Another part of the reason that the PSA began a period of under collection in the  
14 summer of 2020 was the fact that the Navajo Generating Station was retired in 2019 and  
15 APS increased its reliance on generation from natural gas and increased power  
16 purchases. APS reports that the Palo Verde market hub is generally regarded as a good  
17 indicator of the cost of available energy in the southwest and states that the unhedged  
18 average cost of purchased power in 2022 (as of August 2022) was \$62.19 per MWh  
19 delivered compared to \$39.64 per MWh in 2020 - an increase of nearly 57% (See  
20 November 30, 2022, APS PSA Application at 4). As the purchased power costs exceed  
21 the base cost of fuel, currently 3.195 cents per kWh, increased purchased power levels  
22 have increased the under collection.

23 Looking to the future, if the Commission desires to retain the PSA, perhaps an  
24 approach(s) that results in more stable future fuel price certainty should be considered.

- 1 • A further review in the rate case of the PSA and the current balance is necessary because  
2 RUCO believes that the review process currently in place does not allow adequate time  
3 to do a thorough review of the adjustor. The Company's application to reset the PSA are  
4 filed at the end of November with an effective date of February 1 the following year,  
5 leaving just two (2) months for review. This is very little time when 1) parties need to  
6 apply and be granted the right to intervene in the case, 2) obtain work papers, 3) review  
7 work papers 4) issue discovery, 5) analyze discovery responses, 6) conduct independent  
8 review and 7) write comments to the Commission for consideration. This concern is  
9 only magnified where, as here, there are large over/under collections. It is almost  
10 impossible to do a thorough review in this case under the procedural time limits. RUCO  
11 believes that the only adequate venue to determine the reasonableness of the Company's  
12 fuel budgets at this point, both past and future, is the rate case process where the  
13 Commission can accurately view the impact of both the changes in the PSA and  
14 proposed increases in base rates.
- 15 • A sharing arrangement. Staff's report addresses the PSA sharing arrangement from a  
16 historical perspective and even notes that it was eliminated in a prior Commission  
17 Decision No. 73183 (May 24, 2012, Docket No. E-01345A-11-0224 rate case) because it  
18 was not a benefit to ratepayers at that time. Sharing the costs associated with fuel  
19 purchases incentivizes the Company to purchase fuel at the best price given that the  
20 Company has "skin in the game". Sharing also assures greater efficiencies associated  
21 with fuel purchase and shifts the current risks (100%) from the ratepayer to the  
22 shareholder - to some degree anyway. While it may not have been a benefit in 2012, it  
23 certainly seems plausible that such an arrangement would benefit the ratepayer now.

- Reconciling the PSA rate under Staff's recommendation with the rate case application. To date, Staff's recommendation has not been reflected in the rate case application. RUCO submits that the rate case application is out of date because it reflects a PSA rate of 0.133 ¢/kWh. A new PSA level of 1.3554 ¢/kWh would indicate that instead of a one-day PSA reduction of approximately \$221 million due to the proposed increase in the base cost of fuel, there would be an increase in the PSA of approximately \$435 million. At this recommended level, the rate case application is incorrect and would not be an offset to the net base rate increase but, rather, an increase of approximately \$215 million or approximately another 6.4%. Thus, by RUCO's best estimate, the rate case application actually results in a net base rate increase of \$664 million or 19.4%; a PSA increase of \$215 million or 6.4%; and a one-day reset of the REAC charge of \$16 million or 0.5%, for a total increase of \$895 million or 26.3%.

RUCO believes that the Commission could continue the current approach or adopt Option 3 for the time being and move the PSA application into the rate case for final resolution. Either approach would allow a deeper, more informed review of causes underlying the under recovery, consideration of risk sharing and balancing of interests, and the best approach to collecting the balance of the under-recovery and any approved revenue deficiency in a way that minimizes the rate impact to ratepayers as well as the pancaking of rate increases. The objective of price certainty is a paramount concern to RUCO as well as a necessary element of regulatory certainty.

RESPECTFULLY SUBMITTED this 21<sup>st</sup> day of February, 2023.

s/ Daniel W. Pozefsky

Daniel W. Pozefsky  
Chief Counsel

1 ORIGINAL of the foregoing will be  
2 e-filed this 21<sup>st</sup> day of February, 2023 with:

3 <https://efiling.azcc.gov>  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

7 COPIES of the foregoing mailed/emailed  
8 this 21<sup>st</sup> day of February, 2023 to:

9 Robin Mitchell  
10 Legal Division  
11 Arizona Corporation Commission  
12 1200 W. Washington Street  
13 Phoenix, Arizona 85007

14 [legaldiv@azcc.gov](mailto:legaldiv@azcc.gov)  
15 [utildivservicebyemail@azcc.gov](mailto:utildivservicebyemail@azcc.gov)

16 **Consented to Service by Email**

17 Melissa M. Krueger  
18 Pinnacle West Capital Corporation  
19 400 N. 5<sup>th</sup> Street., MS 8695  
20 Phoenix, Arizona 85004

21 [Melissa.Krueger@pinnaclewest.com](mailto:Melissa.Krueger@pinnaclewest.com)

22 **Consented to Service by Email**

23 Daniel W. Pozefsky  
24 RUCO  
1110 West Washington Street, Suite 220  
Phoenix, Arizona 85007

[dpozefsky@azruco.gov](mailto:dpozefsky@azruco.gov)

[jmccarty@azruco.gov](mailto:jmccarty@azruco.gov)

[procedural@azruco.gov](mailto:procedural@azruco.gov)

[czwick@azruco.gov](mailto:czwick@azruco.gov)

[rdelafuente@azruco.gov](mailto:rdelafuente@azruco.gov)

25 **Consented to Service by Email**

26 By s/ Renee de la Fuente  
27 Renee de la Fuente